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BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COM 10010101

JIM IRVIN
COMMISSIONER - CHAIRMAN
RENZ D. JENNINGS
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER

ORIGINAL

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IN THE MATTER OF THE APPLICATION)
OF SIERRA SOUTHWEST ELECTRIC POWER)
COOPERATIVE SERVICES, INC. FOR A)
CERTIFICATE OF CONVENIENCE AND)
NECESSITY TO PROVIDE COMPETITIVE)
RETAIL ELECTRIC SERVICES IN THE)
STATE OF ARIZONA)

DOCKET NO. E-03665A-98-0681

NOTICE OF FILING OF DIRECT
TESTIMONY OF DIRK C. MINSON

NOTICE is given that the attached testimony of Dirk E. Minson has been filed on
behalf of Sierra Southwest Electric Power Cooperative Service, Inc. pursuant to the Procedural Order
dated April 12, 1999 in this matter

DATED this 14th day of May, 1999.

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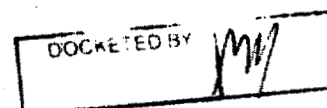
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14th day of May, 1999 with:

Docket Control
Arizona Corporation Commission
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Kathie Weston

Arizona Corporation Commission
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MAY 14 1999



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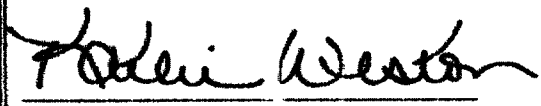
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**DIRECT TESTIMONY
OF
DIRK MINSON**

**APPLICATION OF
SIERRA SOUTHWEST ELECTRIC POWER COOPERATIVE SERVICES, INC.
FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY**

DOCKET NO. E-03665A-98-0681

Q. Would you please state your name, position and business address?

A. My name is Dirk C. Minson. Currently, I am the Assistant General Manager – Finance with the Arizona Electric Power Cooperative, Inc. ("AEPCO"). After the restructuring of AEPCO is completed, I will occupy the position of Chief Financial Officer with Sierra Southwest Electric Power Cooperative Services, Inc. ("Sierra"). AEPCO's address is 1000 South Highway 80, Benson, Arizona 85602-0670. Sierra has established an office at 3900 East Broadway, Tucson, Arizona 85711.

Q. Please briefly describe your educational background and professional work experience.

A. I graduated in 1975 with an undergraduate degree in Business Administration from Kansas State University. In 1982, I obtained a Masters of Business Administration from the University of Missouri. My work experience totals almost twenty-five years either working with or for rural generation and transmission electric cooperatives.

1 Q. What is the purpose of your testimony in this proceeding?

2

3

4 A. The purpose of my testimony is to provide the Commission information about
5 Sierra and its Application to become an Electric Service Provider ("ESP"). I will
6 also discuss Sierra's Application for a Certificate of Convenience and Necessity
7 (the "Application") which was filed with the Commission on November 19, 1998.

8

9 Q. Please describe generally the restructuring of AEPCO.

10

11

12 A. In order to accommodate the advent of competition in Arizona, AEPCO is in the
13 process of restructuring into three separate cooperative corporations. These
14 cooperatives are AEPCO, Sierra and Southwest Transmission Electric Power
15 Cooperative, Inc. ("Southwest Transmission"). After restructuring, AEPCO will
16 continue to be the owner of Apache Station and will supply the power needs of its
17 Class A Member distribution cooperatives as well as making other sales at
18 wholesale. Southwest Transmission will own and operate the transmission
19 system. As pertinent to this Application, Sierra will be an ESP providing
20 electricity and other competitive services to customers eligible for direct access.
21 Attached to the Application as Appendix 1 were four charts which generally
22 describe the restructuring of AEPCO as well as organizational charts for AEPCO,
23 Sierra and Southwest Transmission. AEPCO intends to close the restructuring
24 transaction by September 30, 1999.

25

26

27

Q. What is Sierra and when was it formed?

1
2 A.

Sierra is a non-profit cooperative formed pursuant to A.R.S. §10-2121 et seq. It was incorporated on October 7, 1998. Last month, Sierra seated its first Board of Directors and elected officers.

3
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7 Q.

Who are the members of Sierra?

8
9 A.

Sierra has three classes of members. Its Class A Members are the current Class A Distribution Cooperative Members of AEPCO. In addition, AEPCO and Southwest Transmission are Class B Members. Finally, Class C membership in Sierra is reserved for new retail customers of the cooperative.

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15 Q.

What retail electric services does Sierra seek certification for?

16
17 A.

Sierra will offer aggregation, electricity procurement, scheduling, billing and other associated administrative services to all customer classes in Arizona. Like other ESP applicants, Sierra anticipates that its primary initial customer base will be the commercial and industrial market, although we intend to serve customers in any customer class as opportunities present themselves which make economic sense for us and our retail customer owners. Sierra filed with the Commission as part of its Application its Commercial and Industrial Electricity Tariff No. 1. After the filing of the Application, we filed a change to that tariff stating a maximum billing rate and also filed a Residential Electricity Tariff No. 1. At the current time, Sierra is not seeking to be approved as a Meter Service Provider or Meter Reading

1 Service Provider. Sierra intends to provide those services to its customers by
2 reselling, with no price mark-up, the services of UDC's or other approved
3 Commission providers of those services.
4

5
6 Q. Where in Arizona does Sierra plan to market and sell its services?
7

8 A. We are seeking a competitive CC&N to sell services throughout the State of
9 Arizona except for areas determined by the Commission not to be open to
10 competition.
11

12 Q. How were the maximum rates determined for the tariffs?
13

14
15 A. The energy maximum rates are similar to those rates previously approved by the
16 Commission in the PG&E Energy Services, APS Energy Services and NEV
17 Southwest application matters. As to the maximum rates for billing and collection
18 services, the commercial and industrial maximum was based in part on AEPCO's
19 experience in preparing complicated bills for large customers. Like other ESP
20 applicants, we don't expect actually to charge the maximum rates. But,
21 particularly as to energy rates, recent fluctuations in market prices have underlined
22 the need for pricing flexibility in the competitive market.
23

24
25 Q. How will Sierra acquire the power it markets?
26

27 A. Sierra will not own any generating plant. Instead, it will secure necessary power

1 and energy from a blend of purchased power arrangements appropriate to the
2 needs of its customers. To the extent AEPCO has power available which is not
3 needed to meets its Class A Members' needs and other commitments, Sierra may
4 acquire some portion of the electricity from it.
5

6
7 Q. How will Sierra be staffed?

8
9 A. As part of the restructuring, Sierra is acquiring most of the current employees of
10 AEPCO. This provides Sierra with a great wealth of experienced utility
11 personnel. AEPCO, however, will retain certain employees primarily in the area
12 of merchant power marketing and maintenance and operations supervision at the
13 Apache Generating Station near Benson. Southwest Transmission will also retain
14 some employees primarily responsible for management and operation of the
15 transmission system. The organizational charts attached to the Application
16 describe generally the assignments and transfers of the AEPCO workforce among
17 the three cooperatives. As discussed in Attachment K of the Application, Sierra's
18 acquisition of much of the AEPCO workforce provides it immediate and extensive
19 experience in the utility business including experience in the areas of electricity
20 sales and power marketing.
21

22
23
24 Q. How is Sierra being funded?

25
26 A. AEPCO and Southwest Transmission will provide the initial capitalization of
27 Sierra and its necessary working capital currently estimated at \$4 million. We

1 attached to the Application a letter from Executive Vice President and General
2 Manager Don Kimball confirming these financial commitments. Sierra Southwest
3 has elected not to pursue the AEPCO credit guarantees that were mentioned at
4 page 4 of Staff's report. We are instead in the process of establishing an operating
5 line of credit with the National Rural Utilities Cooperative Finance Corporation.
6 As Sierra's Chief Financial Officer, I'm confident that this capitalization and line
7 of credit will be adequate to meet Sierra Southwest's initial financial needs.
8

9
10 Q. Has Sierra entered into Service Acquisition Agreements with the UDC's in whose
11 service areas Sierra will sell competitive services?
12

13 A. Not yet. We have contacted APS, SRP, TEP and Citizens concerning necessary
14 arrangements. TEP and SRP have supplied us copies of their proposed Service
15 Acquisition Agreements. Our operations, financial and legal staff are currently
16 reviewing these proposals. We, of course, will comply with the requirement to
17 have approved agreements in place prior to providing service.
18

19
20 Q. Does Sierra intend to be a scheduling coordinator?
21

22 A. No. Sierra intends to enter into an agreement with AEPCO which will become its
23 scheduling coordinator. AEPCO is already a scheduling entity in Arizona and the
24 Western Systems Coordinating Council. We believe that AEPCO meets all the
25 designated requirements and should have no difficulties becoming a scheduling
26 coordinator once the AISA has completed its formational requirements and
27

1 secured necessary approvals.
2

3 Q. Has Sierra acquired or will it acquire all necessary state and local tax licenses to
4 conduct business as an ESP?
5

6
7 A. Yes. We attached to our Application Sierra's Federal Employer Identification
8 Number Notice, the Arizona Department of Revenue Notice of Employer
9 Withholding Identification Number and the Arizona Department of Revenue
10 Transaction Privilege Tax License. Sierra will secure additional county and local
11 transaction privilege tax or other licenses as necessary.
12

13 Q. Have you reviewed the Staff Report dated April 8, 1999?
14

15
16 A. Yes. We are pleased that Staff recommends approval of the Application and
17 agrees that Sierra has demonstrated it has the technical and financial capability to
18 receive a CC&N. As to item (f) on page 9 of the Staff Report, as I discussed
19 earlier we have now filed a residential tariff and we also have included in both
20 tariffs maximum rates for billing and collection services as suggested at item (i) on
21 page 10. In relation to item (e) on page 9, as I mentioned, Sierra Southwest is not
22 planning to use any AEPCO credit guarantees so that condition is no longer
23 necessary.
24

25
26 Q. Should the Commission grant Sierra a competitive CC&N?
27

1 A. Yes. Sierra's entry into the competitive market will give customers an additional
2 choice as to energy and energy services options. As a cooperative, those
3 customers will also have a voice in their energy supplier -- a feature unique to
4 Sierra. Finally, given our experience and interest in the state's rural areas, Sierra's
5 certification as a competitor will also bring competitive energy options to those
6 areas of Arizona which we anticipate may not be prime markets for other ESP's.
7

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9 Q. Does this conclude your direct testimony?
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11 A. Yes, it does.
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17 #740617\1 - Minson Direct
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